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SUBJECT: EADS/AIRBUS CRISIS -- THE VIEW FROM EADS' MUNICH
HEADQUARTERS

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REFS: A) Berlin 1803, B) Paris 4277

SUMMARY

¶1. (SBU) Senior German EADS officials told the Consulate that Noel Forgeard's departure was necessary for EADS to move beyond its current mess, and the Forgeard affair was but one example of the challenges of dealing with spotlight-seeking French partners. As for BAE's divestiture of its EADS shares -- it was a case of good riddance. The officials said the A380 program was unfairly suffering from bad press due to inevitable teething pains, but would ultimately prove a technological and commercial success. Nevertheless, Airbus had made some mis-steps that contributed to an improved competitive position for Boeing. End summary.

EADS -- NOT JUST A FRENCH COMPANY

¶2. (SBU) POL/ECON Officer and Econ Specialist met July 10 with two senior European Aeronautic, Defense and Space Company (EADS) officials. One of the officials manages DaimlerChrysler's 22.5 percent EADS share, and the other is in the office of EADS' German co-CEO, Thomas Enders. EADS is the corporate parent of Airbus and Eurocopter, and also has defense and space divisions. EADS has a dual CEO structure, with one German, the other French. Similarly, the corporate headquarters is physically split between Munich and Paris. DaimlerChrysler is generally viewed as representing the German national interest in EADS as the German government does not directly hold shares in the company, unlike the French government.

THE FORGEARD AFFAIR

¶3. (SBU) When asked about Noel Forgeard's unceremonious exit from the French co-CEO slot at EADS, one of our contacts made clear Forgeard's departure was for the good of the company. He described Forgeard as an over-ambitious "maniac." The German-half of EADS never knew if he acted with the backing of the French government, or was

promoting his own agenda. This was especially true last year when he attempted to abolish the shared French-German leadership structure at EADS and claim the top job for himself. Our contact assumed this power-grab was driven by prestige. To be on equal footing with his counterparts in French industry, namely the CEOs of the CAC-40 firms, Forgeard needed to be unrivaled in his leadership of the company -- not a co-CEO.

14. (SBU) Both officials told us that from the German perspective, it made sense to preserve co-leadership at EADS for the time being because, as the French made the current mess, it should, after-all, be cleaned-up by a Frenchman. It was a positive development that former French railways chief Louis Gallois had been picked to replace Forgeard. Thomas Enders would have had less clout with French managers and government officials. Additionally, Gallois was a skilled manager with experience in the aeronautics industry.

DEALING WITH THE FRENCH

15. (SBU) Our contacts said many of EADS' internal problems stemmed from France's inability to come to terms with the fact it was incapable of maintaining its own national aerospace industry. They mentioned the late-1960's Dassault "Mercure," a French attempt to compete with the Boeing 737, of which only 17 units were ever sold. They continued that the French view seems to be that France is the innovator, uniquely capable of coming up with aircraft concepts/designs, while the Germans are content with product execution. Not only was this not the case, but the A380 was actually the brainchild of a German engineer,

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Juergen Thomas. As if to illustrate the French penchant for dominating the spotlight, one of our contacts turned to the other and joked, "What, you mean we're not a French company?"

16. (SBU) One our contacts related how after some French officials reacted to the Forgeard crisis by publicly calling for more French government influence over EADS, French government officials called Enders' office and asked for copies of the EADS shareholder agreement. [Note: The shareholder agreement excludes the French government's influence on operational decisions. End Note] Having studied the agreement, the French then stepped back from their push for greater influence the next day.

17. (SBU) Asked about the recent decision by the British BAE Systems to divest itself of its 20 percent stake in EADS, our contacts characterized this as a case of good riddance. BAE had been a schizophrenic partner anyway, never quite knowing if it was a European company, or a quasi-U.S. firm.

A380's Woes

18. (SBU) Both officials reported that EADS' management had been taken by surprise over the reaction by the media and financial markets to the delays with the Airbus A380. Further, Forgeard's comments blaming Airbus' Hamburg production facility for the wiring harness problem were unjustified. This was a case of "garbage in, garbage out" -- Hamburg was producing harnesses with configuration information from Toulouse -- the problem did not lie in Germany.

19. (SBU) Our contacts downplayed recent reports that the A380 would generate significantly more wake turbulence than expected, resulting in an ICAO requirement that other

aircraft have a 10 nautical mile safe following distance from A380s -- double the normal separation. They said the reports overstated the problem, and in reality, an A380 would generate only slightly more wake than a Boeing 747. One of the officials confided that on the day of our meeting, Airbus was doing wake testing in Oberpfaffenhofen on one of its four flight-capable A380s, as well as a 747. The company hoped these tests would vindicate the A380. Even if the 10 nautical mile separation rule remained in place, the official said he did not expect there would be enough A380 traffic at a given airport for it to be a significant problem.

¶10. (U) In spite of the delivery problems, our contacts were confident that the A380 project would ultimately be a success. Airbus needed to sell 300 of the aircraft to break-even -- a goal they believed to be attainable given that the A380 is only at the beginning of its 25-year product life cycle.

BOEING VS. AIRBUS

¶11. (U) Both men conceded that Airbus was facing a tough year in its competition with Boeing, but both were confident that Airbus would catch up. [Note: Airbus orders are down 58 percent for the first half of 2006 compared to the same period last year, with Airbus trailing Boeing by 363 orders year-to-date. End Note] Our contacts acknowledged that with its focus on the A380, Airbus had misjudged customer's interest in Boeing's 787 Dreamliner. Airbus had also not expected the remarkable reliability of the twin-engine Boeing 777, which had pulled customers from the less-efficient four-engine Airbus A340. One of our interlocutors, while expressing admiration for the 777's record, pointedly said that a mid-ocean failure of both engines on a 777 would bring customers back to the A340.

¶12. (U) The officials also blamed the media for ignoring good news from EADS, including the U.S. Army's recent announcement that it had awarded a USD 3 billion contract to EADS subsidiary Eurocopter to provide up to 352 UH-145 light utility helicopters -- Eurocopter's first U.S. defense contract. They expressed the hope this was a good

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omen for EADS' bid to get a contract to build tankers for the U.S. Air Force, even if only a split contract with Boeing.

COMMENT

¶13. (SBU) The Forgeard/EADS crisis has been widely portrayed by the media as a French affair -- a notion the German management of EADS appears content not to challenge. However, underneath the stoic German face of EADS is obvious frustration with the damage and embarrassment the French partnership has caused the firm. Despite our contacts' stated optimism regarding the prospects of the A380 program and the ability of Airbus to respond to the challenge of the 787 Dreamliner's success, one had the impression they, and their colleagues, feel at present a little like Hans Brinker -- in this case doing their best at damage control.

¶14. (U) This report has been coordinated with Embassy Berlin.

¶15. (U) Previous reporting from Munich is available on our SIPRNET website at www.state.gov/p/eur/munich/ .

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